

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|  |  |              |  |  |  |        |  |
|--|--|--------------|--|--|--|--------|--|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |  |              |  | Local Government Name                      |  | County |  |
| Audit Date   |  | Opinion Date |  | Date Accountant Report Submitted to State: |  |        |  |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes  No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes  No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes  No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes  No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes  No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes  No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes  No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes  No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes  No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following:   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   |          |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 |              |
| Single Audit Reports (ASLGU).   |          |                 |              |

|   |  |      |          |
|---|--|------|----------|
| Certified Public Accountant (Firm Name) |  |      |          |
| Street Address                          |  | City | State    |
|   |  |      | ZIP Code |
| Accountant Signature                    |  | Date |          |
| <i>Siegfried Crandall P.C.</i>          |  |      |          |

*Parchment Community Library*  
*Kalamazoo County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended September 30, 2005*

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Parchment Community Library, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Parchment Community Library, Michigan, as of September 30, 2005, and for the year then ended, which collectively comprise the Parchment Community Library's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Parchment Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Parchment Community Library, Michigan, as of September 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The budgetary comparison information, on page 13, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Parchment Community Library, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

*Siegfried Crandall P.C.*

December 6, 2005

## **BASIC FINANCIAL STATEMENTS**

**Parchment Community Library**  
**STATEMENT OF NET ASSETS**  
September 30, 2005

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**ASSETS**

Current assets:

|  |                |
|--|----------------|
| Cash   | \$ 492,839     |
| Accounts receivable                              | 1,489          |
| Prepaid expenses                                 | 8,214          |
| Beneficial interest in assets held by foundation | <u>275,708</u> |

Total current assets 778,250

Noncurrent assets:

|  |                  |
|--|------------------|
| Beneficial interest in assets held by foundation | 50,000           |
| Capital assets (net of accumulated depreciation) | <u>1,044,399</u> |

Total noncurrent assets 1,094,399

Total assets 1,872,649

**LIABILITIES**

|  |               |
|--|---------------|
| Current liabilities - accounts payable | <u>11,217</u> |
|--|---------------|

**NET ASSETS**

|  |                |
|--|----------------|
| Invested in capital assets             | 1,044,399      |
| Restricted for nonexpendable endowment | 50,000         |
| Unrestricted                           | <u>767,033</u> |

Total net assets \$ 1,861,432

See notes to the financial statements

**Parchment Community Library**  
**STATEMENT OF ACTIVITIES**  
*Year ended September 30, 2005*

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**PROGRAM EXPENSES**

Recreation and cultural - library \$ 376,134

**PROGRAM REVENUES**

Charges for services 44,957

Operating grants and contributions 27,343

Total program revenues 72,300

**NET PROGRAM EXPENSES**

(303,834)

**GENERAL REVENUES**

Property taxes 390,532

Investment return 31,641

Total general revenues 422,173

**NET CHANGE IN NET ASSETS**

118,339

**NET ASSETS - BEGINNING**

1,743,093

**NET ASSETS - ENDING**

\$ 1,861,432

*See notes to the financial statements*

**Parchment Community Library**  
**BALANCE SHEET - governmental funds**  
September 30, 2005

|  | <u>General</u>    | <u>Stanley Stevens<br/>Memorial<br/>Nonexpendable<br/>Trust</u> | <u>Totals</u>     |
|--|-------------------|---|-------------------|
| <b>ASSETS</b>                                    |                   |   |                   |
| Cash   | \$ 492,839        | \$ -  | \$ 492,839        |
| Accounts receivable                              | 1,489             | -   | 1,489             |
| Beneficial interest in assets held by foundation | <u>275,708</u>    | <u>50,000</u>   | <u>325,708</u>    |
| Total assets                                     | <u>\$ 770,036</u> | <u>\$ 50,000</u>  | <u>\$ 820,036</u> |
| <b>LIABILITIES AND FUND BALANCES</b>             |                   |   |                   |
| Liabilities - accounts payable                   | <u>\$ 11,217</u>  | <u>\$ -</u>   | <u>\$ 11,217</u>  |
| Fund balances:                                   |                   |   |                   |
| Reserved for endowment                           | -                 | 50,000  | 50,000            |
| Unreserved:                                      |                   |   |                   |
| Designated                                       | 16,348            | -   | 16,348            |
| Undesignated                                     | <u>742,471</u>    | <u>-</u>  | <u>742,471</u>    |
| Total fund balances                              | <u>758,819</u>    | <u>50,000</u>   | <u>808,819</u>    |
| Total liabilities and fund balances              | <u>\$ 770,036</u> | <u>\$ 50,000</u>  | <u>\$ 820,036</u> |

Fund balances - total governmental funds \$ 808,819

Amounts reported for *governmental activities* in the statement of net assets (page 4) are different because:

Capital assets 1,044,399

Prepaid expenses 8,214

Net assets of *governmental activities* \$ 1,861,432

See notes to the financial statements

**Parchment Community Library**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - governmental funds**  
Year ended September 30, 2005

|  | <u>General</u>    | <u>Stanley Stevens<br/>Memorial<br/>Nonexpendable<br/>Trust</u> | <u>Totals</u>     |
|--|-------------------|---|-------------------|
| <b>REVENUES</b>  |                   |   |                   |
| Taxes  | \$ 390,532        | \$ -  | \$ 390,532        |
| State grants   | 23,714            | -   | 23,714            |
| Charges for services   | 4,309             | -   | 4,309             |
| Fines and forfeitures  | 39,678            | -   | 39,678            |
| Investment return  | 31,641            | -   | 31,641            |
| Other  | 4,599             | -   | 4,599             |
|  | <u>494,473</u>    | <u>-</u>  | <u>494,473</u>    |
| Total revenues   |                   |   |                   |
| <b>EXPENDITURES</b>  |                   |   |                   |
| Recreation and cultural  | 357,177           | -   | 357,177           |
| Capital outlay   | 66,610            | -   | 66,610            |
|  | <u>423,787</u>    | <u>-</u>  | <u>423,787</u>    |
| Total expenditures   |                   |   |                   |
| <b>NET CHANGE IN FUND BALANCES</b>   | 70,686            | -   | 70,686            |
| <b>FUND BALANCES - BEGINNING</b>   | 688,133           | 50,000  | 738,133           |
| <b>FUND BALANCES - ENDING</b>  | <u>\$ 758,819</u> | <u>\$ 50,000</u>  | <u>\$ 808,819</u> |
| Net change in fund balances - total governmental funds   |                   |   | \$ 70,686         |
| Amounts reported for <i>governmental activities</i> in the statement of activities (page 5) are different because: |                   |   |                   |
| Capital assets:  |                   |   |                   |
| Amounts capitalized  |                   |   | 113,462           |
| Provision for depreciation   |                   |   | (68,353)          |
| Increase in prepaid expenses   |                   |   | <u>2,544</u>      |
| Change in net assets of <i>governmental activities</i>   |                   |   | <u>\$ 118,339</u> |

See notes to the financial statements

**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Parchment Community Library, Michigan (the Library), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Library (primary government). The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Library has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Library's financial statements. Also, the Library is not a component unit of any other entity.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. The effect of all interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the nonexpendable trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Library reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Stanley Stevens Memorial Nonexpendable Trust Fund is a permanent fund that accounts for resources legally held in trust, as an endowment, that are legally restricted to the extent that only earnings, and not principal, may be used to support the Library's programs.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits and investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*ii) Receivables* - All receivables are considered to be fully collectible, and all are due within one year.

*iii) Capital assets* - capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

|                            |               |
|----------------------------|---------------|
| Buildings and improvements | 10 - 40 years |
| Furniture and equipment    | 3 - 10 years  |
| Books and a/v materials    | 10 years      |

**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity* (continued):

iv) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

v) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Library. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Library levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. There were no expenditures in excess of amounts budgeted.

NOTE 3 - CASH:

State statutes and the Library's investment policy authorize the Library to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Library's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Library will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of September 30, 2005, \$188,976 of the Library's bank balances of \$507,432 was exposed to custodial credit risk because it was uninsured.

The Library believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATION:

Amounts shown as beneficial interest in assets held by foundation represent monies placed with the Kalamazoo Community Foundation (the Foundation) by the Library, specifying itself as the beneficiary. The Library and the Foundation are unrelated entities. The Library has the right, at any time, to receive from the Foundation, all or a portion of, the balance of such monies held by the Foundation. The Foundation, as custodian of such funds, continues to report the funds as assets of the Foundation, with a corresponding liability, agency non-endowed funds. The Library reports this asset at the present value of future payments expected to be received. The portion of the asset not considered expendable has been reported in the permanent fund.

**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - INVESTMENT RETURN:**

Investment return consists of the following:

|   | <u>General</u>   | <u>Stanley Stevens<br/>Memorial<br/>Nonexpendable<br/>Trust Fund</u> |
|---|------------------|--|
| Interest earned   | \$ 8,457         | \$ -   |
| Appreciation in fair value of beneficial interest<br>in assets held by foundation | <u>23,184</u>    | <u>-</u>   |
| Net investment return   | <u>\$ 31,641</u> | <u>\$ -</u>  |

**NOTE 6 - CAPITAL ASSETS:**

Capital asset activity of the Library for the current year was as follows:

|   | <u>Beginning<br/>balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental activities:                    |                              |                  |                  |                           |
| Capital assets being depreciated:           |                              |                  |                  |                           |
| Buildings                                   | \$ 1,322,892                 | \$ 22,873        | \$ -             | \$ 1,345,765              |
| Furniture and equipment                     | 212,337                      | 33,211           | -                | 245,548                   |
| Books and a/v material                      | <u>268,641</u>               | <u>57,378</u>    | <u>44,377</u>    | <u>281,642</u>            |
| Subtotal                                    | <u>1,803,870</u>             | <u>113,462</u>   | <u>44,377</u>    | <u>1,872,955</u>          |
| Less accumulated depreciation for:          |                              |                  |                  |                           |
| Buildings                                   | 457,139                      | 32,848           | -                | 489,987                   |
| Furniture and equipment                     | 203,595                      | 7,341            | -                | 210,936                   |
| Books and a/v material                      | <u>143,846</u>               | <u>28,164</u>    | <u>44,377</u>    | <u>127,633</u>            |
| Subtotal                                    | <u>804,580</u>               | <u>68,353</u>    | <u>44,377</u>    | <u>828,556</u>            |
| Governmental activities capital assets, net | <u>\$ 999,290</u>            | <u>\$ 45,109</u> | <u>\$ -</u>      | <u>\$ 1,044,399</u>       |

**NOTE 7 - CLAIMS ARISING FROM RISKS OF LOSS:**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Library has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Parchment Community Library**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL - General Fund**

Year ended September 30, 2005

|                                    | <u>Original<br/>budget</u> | <u>Amended<br/>budget</u> | <u>Actual</u>     | <u>Variance<br/>favorable<br/>(unfavorable)</u> |
|------------------------------------|----------------------------|---------------------------|-------------------|---|
| <b>REVENUES</b>                    |                            |                           |                   |   |
| Taxes                              | \$ 384,021                 | \$ 384,021                | \$ 390,532        | \$ 6,511  |
| State grants                       | 22,950                     | 22,950                    | 23,714            | 764   |
| Charges for service                | 4,035                      | 4,035                     | 4,309             | 274   |
| Fines and forfeitures              | 42,000                     | 42,000                    | 39,678            | (2,322)   |
| Investment return                  | 3,000                      | 3,000                     | 31,641            | 28,641  |
| Other                              | 1,600                      | 3,100                     | 4,599             | 1,499   |
|                                    | <u>457,606</u>             | <u>459,106</u>            | <u>494,473</u>    | <u>35,367</u>                                   |
| Total revenues                     |                            |                           |                   |   |
| <b>EXPENDITURES</b>                |                            |                           |                   |   |
| Recreation and cultural:           |                            |                           |                   |   |
| Salaries and wages                 | 166,175                    | 178,502                   | 174,566           | 3,936   |
| Employee benefits                  | 11,567                     | 11,870                    | 11,813            | 57  |
| Payroll taxes                      | 12,712                     | 13,678                    | 13,361            | 317   |
| Operating supplies                 | 8,000                      | 8,000                     | 7,966             | 34  |
| Programming                        | 4,000                      | 4,000                     | 3,071             | 929   |
| State aid - SMLC                   | 2,000                      | 2,447                     | 2,447             | -   |
| Audio/video                        | 18,000                     | 17,700                    | 10,126            | 7,574   |
| Books                              | 60,000                     | 60,000                    | 47,252            | 12,748  |
| Periodicals                        | 6,000                      | 6,000                     | 4,878             | 1,122   |
| Professional services              | 14,700                     | 19,700                    | 19,373            | 327   |
| Postage                            | 2,000                      | 1,200                     | 1,056             | 144   |
| Telephone                          | 5,700                      | 6,500                     | 6,329             | 171   |
| Utilities                          | 23,850                     | 23,850                    | 23,424            | 426   |
| Repairs and maintenance            | 24,725                     | 25,725                    | 22,983            | 2,742   |
| Membership dues                    | 500                        | 500                       | 125               | 375   |
| Insurance                          | 8,000                      | 8,000                     | 7,313             | 687   |
| Workshops/professional development | 2,500                      | 2,053                     | 1,029             | 1,024   |
| Miscellaneous                      | 1,500                      | 1,500                     | 65                | 1,435   |
|                                    | <u>371,929</u>             | <u>391,225</u>            | <u>357,177</u>    | <u>34,048</u>                                   |
| Total recreational and cultural    |                            |                           |                   |   |
| Capital outlay                     | 19,000                     | 69,276                    | 66,610            | 2,666   |
|                                    | <u>390,929</u>             | <u>460,501</u>            | <u>423,787</u>    | <u>36,714</u>                                   |
| Total expenditures                 |                            |                           |                   |   |
| <b>NET CHANGE IN FUND BALANCES</b> | 66,677                     | (1,395)                   | 70,686            | 72,081  |
| <b>FUND BALANCES - BEGINNING</b>   | <u>688,133</u>             | <u>688,133</u>            | <u>688,133</u>    | <u>-</u>  |
| <b>FUND BALANCES - ENDING</b>      | <u>\$ 754,810</u>          | <u>\$ 686,738</u>         | <u>\$ 758,819</u> | <u>\$ 72,081</u>                                |